

## **Health & Human Services**

***Restructure and Reform.*** The Governor proposes to restructure and reform a number of Health and Human Services Programs, including Medi-Cal, Healthy Families, CalWORKS, Foster Care, and services provided to individuals with developmental disabilities (i.e., Regional Center services). No specifics have been provided on these proposals other than an outline of key principles. They do note that they will be seeking constructive input from consumers, providers, the Legislature and others. The key principles are:

- (1) Maintain essential services to those most in need;
- (2) Recognize children as a priority investment;
- (3) Promote personal responsibility;
- (4) Promote work participation; and
- (5) Enhance program effectiveness and accountability.

***Total Proposed Expenditures.*** The Governor proposes expenditures of \$64.8 billion (\$24.6 billion General Fund and \$40.2 federal funds) for health and human services programs, including expenditures for about 31,384 state employees. The Governor proposes to make \$2.7 billion (General Fund), or 19 percent, in adjustments or “budget solutions” in the health and human services area. These adjustments—program cuts, reforms, fund shifts, and related items—represent the most significant area of adjustment in his entire budget package.

***Continues Mid-Year Reduction Proposals.*** The Governor proposes to annualize all of the reductions included in his Mid-Year Reduction Package, except for the Regional Center program adjustments which he rescinded. As such, the enrollment caps he proposed for Healthy Families, California Childrens Services, legal immigrant health programs (Medi-Cal Program, Prenatal Care and Long-Term Care, Breast and Cervical Cancer, AIDS Drug Assistance Program (ADAP), Genetically Handicapped Persons Program (GHPP), California Food Assistance Program, Cash Assistance Program for Immigrants, CalWORKS for legal immigrants, Vocational Rehabilitation, Habilitation Services, and certain State Hospital services for the mentally ill, would continue into 2004-05.

## **Medi-Cal Program Proposals**

***Total Proposed Expenditures.*** The Governor proposes total expenditures of \$31.2 billion (\$11.6 billion General Fund) which reflects a General Fund increase of \$1.6 billion, or 16.2 percent above the Budget Act of 2003. The General Fund increase primarily reflects the costs of using one-time savings in 2003-04 from the accrual-to-cash accounting change, and the discontinuation of the enhanced federal financial participation provided in the federal Jobs and Growth Tax Relief Reconciliation Act of 2003. Caseload is anticipated to increase by about 220,000 for a total of about 6.8 million eligibles.

***Loss of Enhanced Federal Funds.*** The federal Jobs and Growth Tax Relief Reconciliation Act of 2003 provided federal fiscal relief to the states for the period of April 2003 through June 2004. As such, California received an enhanced federal fund match for Medi-Cal during this period (54.3 percent from April 2003 through September 2003, and 52.9 percent from October 2003 through June 2004). The loss of this enhanced federal financial participation for 2004-05 results in an increased need of \$655.4 million (General Fund).

***Restructuring and Reform.*** The Governor proposes to seek a federal Waiver that *may* include all or any of the following components:

- (1) Simplification by aligning Medi-Cal's eligibility standards and processes with CalWORKS and the SSI/SSP program;
- (2) Development of a multi-tiered benefit/premium structure that provides comprehensive benefits to federally mandated populations and basic benefits to optional eligibles, with more comprehensive benefits available to those willing to pay premiums;
- (3) Requiring co-payments for various services;
- (4) Conform the basic Medi-Cal benefits package to that of private health plans, including making changes to mental health benefits provided under the EPSDT Program for children; and
- (5) Expand Medi-Cal Managed Care to additional counties, review and reform managed care reimbursement policies and encourage the enrollment of the aged, blind and disabled into managed care.

No savings for 2004-05 are identified since only a framework of ideas is proposed at this time. In addition time would be needed to define and obtain a Medicaid

Waiver and then proceed with implementation. However, the Governor is seeking an increase of almost \$6 million (\$2.2 million General Fund) for new state positions and system changes for this effort.

***Medi-Cal Provider Rate Reduction.*** The Governor proposes to reduce Medi-Cal rates by an additional 10 percent in addition to the five percent reduction (effective January 1, 2004 to January 1, 2007) made in the Budget Act of 2003 for savings of \$947.3 million (\$462.2 million General Fund). This proposal is also part of his Mid-Year reduction package. It should be noted that the United States District Court recently issued a preliminary injunction stopping the implementation of the five percent reduction for the fee-for-service reimbursement rates. The state has submitted a Motion for Reconsideration. As such, further court action is pending.

***Reduce Medi-Cal Provider Float.*** The Governor proposes to delay Medi-Cal check-writes by one week, thereby reducing the number of total check-writes in the year, for proposed savings of \$287 million (\$143.5 million General Fund). The delay in the check-writes will allow for a more thorough review of claims for anti-fraud purposes as well.

***Reduce Interim Rates by 10 Percent for Cost Reimbursed Acute Care Hospitals.*** The Governor proposes to reduce by 10 percent the interim rates paid to cost reimbursed acute care hospitals (those not contracting with the state--usually smaller, rural hospitals) for savings of \$62 million (\$31 million General Fund). According to the Administration, they still intend to do the normal cost-settlement process at the end of the year.

***Revise Rate Methodology for Federally Qualified Health Centers (FQHC) and Rural Health Clinics.*** The Governor proposes to significantly alter the existing prospective rate methodology for certain community-based clinics for proposed savings of \$64.5 million (\$32.3 million General Fund). Specifically, the alternative rate methodology provided for under the prospective rate process would be eliminated as of April 1, 2004.

***Quality Improvement Assessment Fee for Medi-Cal Managed Care Plans.*** The Governor proposes to modify the quality improvement assessment fee adopted in the Budget Act of 2003 in order to obtain federal approval. Through this mechanism, managed care plans will pay a quality improvement assessment fee to the state. The state will then obtain a federal match of the fee assessment. These funds would then be used to improve the quality of care in managed care plans through a rate enhancement, and the state would utilize the remaining amount as a

General Fund offset. It is anticipated that a savings of \$75 million (General Fund) will be obtained.

***Adjust County Administration Costs.*** The Governor proposes to reduce by \$20 million (\$10 million General Fund) the allocation provided to counties for Medi-Cal administration. According to the Administration, this savings will be achieved by not granting any cost-of-living-adjustments (COLA) to county workers that exceed the average COLA granted to state workers.

***Reform of Adult Day Health Care.*** The Governor proposes to implement a twelve-month moratorium on the certification of new Adult Day Health Care Centers (ADHCs) and to change the way they are reimbursed for services (i.e., unbundling the rate and billing separately for therapies and transportation services) for proposed savings of \$25.4 million (\$12.7 million General Fund).

***Changes to Rates Paid for Mental Health.*** The Governor proposes to reduce by \$95 million (\$40 million General Fund) the rates paid for mental health services through the rebasing of the statewide maximum allowances.

***Increase Oversight of Early Periodic Screening, Diagnosis and Treatment (EPSDT) Program.*** The Governor proposes savings of \$13 million (\$6 million General Fund) by providing more oversight of the program through audits and related measures.

***Assumes Elimination of Supplemental Wage Rate Adjustment for Nursing Homes.*** The Governor assumes approval of his Mid-Year Reduction proposal to eliminate \$46 million (General Fund) in 2003-04 for the supplemental wage rate adjustment to be paid to nursing homes who have collective bargaining agreements or contracts that increase wages for their staff.

***Increase for Medicare Part A and Part B Premiums.*** The Governor proposes to provide an increase of \$109.3 million (General Fund) for the state to pay the premium of dually eligible Medi-Cal/Medicare enrollees. This growth is due to expected federal premium rate increases to be effective January 2005, and the continued growth in the number of aged and disabled persons eligible for Medi-Cal and Medicare.

***Orthopaedic Hospital Settlement—Hospital Rates.*** The settlement in *Orthopaedic Hospital v Belshe* requires hospital outpatient rates to be increased each year from 2001-02 through 2004-05. The cost of the settlement will increase

by \$51.2 million (General Fund) for 2004-05 due to the application of the final rate increase and the updating of the costs for managed care eligibles.

## **Public Health Proposals**

***Total Proposed Expenditures.*** The Governor proposes expenditures of \$3 billion (\$631.6 million General Fund) for 2004-05. This represents a decrease of \$55.6 million, or 8.1 percent, below General Fund expenditures compared to the Budget Act of 2003.

***AIDS Drug Assistance Program (ADAP).*** The Governor proposes to continue his Mid-Year Reduction of capping enrollment in ADAP at 26, 479 individuals and to increase by \$8.3 million in Reimbursements from drug rebate funds, and to decrease by \$550,000 General Fund. The total appropriation for 2004-05 would be \$207.3 million (\$63.8 million General Fund, \$97.7 million federal funds and \$45.8 million in drug rebates).

***Federal Bioterrorism Funding.*** The Governor proposes to increase by \$76.5 million (federal funds) and 19 positions to continue the Bioterrorism Prevention and Preparedness Program. Of the increased amount, \$47.2 million will be allocated to local health jurisdictions for their efforts.

***California Nutrition Network for Healthy, Active Families.*** The Governor proposes to increase by \$39.7 million (Reimbursements and local assistance expenditures authority) for the social marketing campaign of the California Nutrition Network for Healthy, Active Families (Network). The Network is primarily funded through federal funds.

## **Healthy Families Program**

***Total Proposed Expenditures.*** The Governor proposes to provide a total of \$839.1 million (\$305.5 million General Fund, \$4.2 million Proposition 99 funds, \$523.6 million federal funds and \$5.8 million in Reimbursements) for the Healthy Families Program for 2004-05. It is anticipated that 737,304 children will be enrolled as of June 30, 2004. This enrollment level assumes that the Governor's

proposed cap on enrollment as contained in his Mid-Year Reduction proposal is enacted.

## **Developmental Disability Services**

***Total Proposed Expenditures.*** The Governor proposes expenditures of \$2.7 billion (total funds) in 2004-05, an increase of 6 percent over the Budget Act of 2003, for the funding of the Regional Centers. An increase of \$134 million (\$101.7 million General Fund) is provided to reflect updated caseload estimates and related factors.

Total expenditures for the state Developmental Centers is proposed at \$690.1 million (total funds), a decrease of \$24.7 million or 3.5 percent.

***Significant Purchase of Services Cost Reduction at Regional Centers.*** The Governor proposes to reduce by \$100 million in General Fund support for the purchase of services for individuals with developmental disabilities receiving services through the Regional Center system. No details as to how this reduction will be achieved have as yet been provided. The Administration states that the reduction will be achieved through a number of proposals to be implemented in 2004-05 and 2005-06. The proposals will recommend establishing a Purchase of Services Standards, share of cost liability, a standardized rate structure and an alternative service delivery method.

***Continues Cost Containment Actions Taken in the Budget Act of 2003.*** The Governor proposes to continue several cost containment actions enacted as part of the Budget Act of 2003. These include (1) \$10 million (General Fund) in unallocated reductions at the Regional Centers for the purchase of services, (2) continuation of the Day Program rate freeze, (3) continuation of the contract services rate freeze, (4) continuation of the Community Care Facility rate freeze, (5) continuation of the elimination of the SSI/SSP pass-through, (6) continuation of the delay in intake and assessment (60 days to 120 days), and (7) continuation of the non-community placement plan start-up suspension.

***Co-Payment Assessment Program.*** The Governor proposes to implement a plan to be submitted to the Legislature by April 1, 2004 that will propose a system of enrollment fees/copayments to be assessed on parents of minor children between

the ages of 3 and 17 years who live at home and receive services through the Regional Centers.

***Regional Center Cost Containment.*** The Governor proposes to reduce by \$6.5 million (General Fund) the Operations portion of the Regional Centers budget to reflect reduced funding for various administrative activities.

***Title XX Social Services Block Grant Fund Shift.*** The Governor proposes to shift \$48 million in federal Title XX Social Services Block Grant funds and delete a commiserate amount in General Fund support for Regional Center services.

## **Mental Health Programs**

***Total Proposed Expenditures.*** The Governor proposes expenditures of \$2.5 billion (\$910.7 million General Fund) for an overall increase of seven percent and a General Fund increase of 3.6 percent. It should be noted that the increases are for the State Hospitals to account for employee compensation adjustments and the continuing activation of Coalinga State Hospital. Significant reductions are proposed for community mental health services, including childrens programs.

***Elimination of the Children's System of Care Program.*** The Governor proposes to eliminate the highly efficacious Children's System of Care Program which provides medically needed mental health services to children with severe emotional disturbances. Elimination of the program would save \$20 million General Fund.

***Reduces Early Mental Health Initiative for Children.*** The Governor proposes to reduce by \$5 million (Proposition 98/General Fund) the Early Mental Health Initiative Program which provides mental health assistance to young children enrolled in school.

***Various Adjustments to the Early Periodic Screening Diagnosis and Treatment Program (EPSDT).*** The Governor proposes a *net* increase of \$244.6 million (total funds) for the Early Periodic Screening Diagnosis and Treatment Program (EPSDT). This adjustment includes a reduction of \$60 million from the rebasing of the statewide maximum allowances for mental health services to be completed by the Department of Health Services, and a reduction of \$13 million from additional oversight and auditing of the services.

***Continued Activation of Coalinga State Hospital.*** The Governor proposes an increase of \$24.9 million (General Fund) for the continuing activation of Coalinga State Hospital.



## **California Work Opportunity and Responsibility to Kids**

***Reduction of CalWORKs grants.*** The Governor proposes to reduce CalWORKs grant levels by 5 percent to generate **\$225 million** in TANF fund savings which he proposes to transfer to offset General Fund costs in other programs. Under the Governor's proposal, the maximum monthly cash grant for a family of three would be reduced by \$59 to \$669, a level below the grants in effect in 1989. The reduction will be offset by a \$27 increase in monthly food stamps benefits.

Further, the Governor proposes to suspend the July 2004 CalWORKs cost of living adjustment for \$98 million in General Fund savings. He maintains his Mid-Year proposal to delink the CalWORKs cost of living adjustment from the Vehicle License Fee effectively suspending the October 2003 adjustment.

***Change Work Participation requirements.*** The Governor proposes to require most adults receiving CalWORKs to work or participate in work related activities for at least 20 hours per week within 60 days of receipt of aid to realize \$99.8 million in General Fund savings. Currently, recipients can satisfy CalWORKs work participation requirements by participating in activities that will lead to employment, including education and training programs, within the first 18 to 24 months they are on aid. The Governor proposes to eliminate the 18 to 24 month time limit, to require applicant job search as a condition of eligibility and to require most adults to participate in work related activities within 60 days of receiving aid.

***Reduction of Safety Net grants.*** The Governor proposes to reduce Safety Net grant received by families with non-working adults by 25 percent for General Fund savings of \$32.9 million in 2004-05. Safety Net grants are child-only grants provide cash assistance to children whose parents or caretaker relatives have exceeded their 60-month lifetime limit for receipt of cash aid. Under the Governor's proposal the maximum safety net grant for a family of 3 with non-working adults would be reduced from by \$163 to \$405 per month.

***Reduction of Grants for Sanctioned families.*** The Governor proposes to reduce by 25 percent the grant received by families with an adult that is not complying with CalWORKs requirements after one month of non-compliance for General Fund savings of \$30.2 million. Currently, parents or caretaker relatives on CalWORKs that do not comply with program requirements are sanctioned and grants are reduced by the adult component of the grant. The Governor proposes a further reduction in the grant of families in sanction status for two months or longer.

## **In-Home Supportive Services Program**

***Elimination of Residual Program.*** The Governor proposes to eliminate the In-Home Supportive Services Residual Program for General Fund savings of \$88.8 million in the current year and \$365.8 million in the budget year. The proposed elimination will terminate services received by 75,000 low-income aged, blind or disabled Californians. Beneficiaries affected by the proposed elimination are consumers whose service provider is a parent or a spouse, consumers in need of protective supervision, and persons with severe disabilities who receive payment prior to service delivery. Seventy-six percent of IHSS Residual consumers will become ineligible for services or will lose a significant number of the hours of service they receive. The remaining consumers will remain eligible for IHSS and will need to alter their existing provider arrangement to receive services.

***Reduction of state funding for Worker wages and benefits.*** The Governor proposes to reduce the level up to which the state participates in IHSS provider wages and benefits from \$10.10 to the State minimum wage (\$6.75) for General Fund savings of \$98 million in 2004-05 and \$130.7 million in 2005-06. The Governor proposes to repeal current law, which provides for state participation in wages and benefits resulting from collective bargaining agreements up to a maximum of \$12.10 per hour. The effect of the Governor's proposals is that upon expiration of current collective bargaining contracts, counties will have to reduce IHSS provider wages or fund the difference between minimum wage and the negotiated wage with county funds. In addition to reducing state participation in IHSS provider wages, the Governor proposes to repeal the existing requirement that counties establish an employer of record for IHSS providers and eliminates state funding for the county employers of record.

***Elimination of Domestic Services.*** The Governor proposes to eliminate coverage for domestic services when consumers reside with other family members to realize General Fund savings of \$26.3 in 2004-05 and \$54.6 in 2005-06. The services to be eliminated include house cleaning, meal preparation, laundry and errands. Consumers would continue to receive personal care services. This proposal will reduce the authorized IHSS service hours of 139,000 persons.

## **Other Human Services Programs**

***Suspension of SSI/SSP cost of living adjustments.*** The Governor proposes to suspend the January 2005 state SSI/SSP cost of living adjustment and to withhold

the federal cost of living adjustment for General Fund savings of \$134.7 million in 2004-05 and \$269.4 million in 2005-06. The maximum SSI/SSP grant would remain at the current level, which is \$790 for individuals and \$1,399 for a couple.

***Reform of Programs serving immigrants*** The Governor proposes to eliminate various human services programs that serve immigrants and proposes a single county block grant to fund safety net services for immigrants. The programs subject to elimination include CalWORKs benefits for recent legal immigrants, the California Food Assistance Program, the Cash Assistance Program for Immigrants and Healthy Families Program for Immigrants. The Governor reduces funding available for these immigrant safety net services by \$6.6 million General Fund.

***Foster Care Program Reforms.*** The Governor's Budget assumes \$20 million General Fund in savings resulting from development and implementation of programmatic reforms that shorten the period of time children spend in foster care. The reforms may include use of performance-based contracts in foster care, restructuring of foster care rates and receipt of a federal waiver that permits use of federal foster care funds for child welfare purposes, including intensive services to keep children with their birth parents and reduce out-of-home placements.

## **Child Support Services**

***County Share of the Penalty for Delayed Implementation of the Child Support Automated System.*** The Governor proposes a permanent 25 percent county share of the alternative federal penalty, a penalty resulting from the state's failure to implement a statewide automated child support system. California has been subject to the alternative federal penalty since 1997. The 2003 Budget Act included a one-time county share of the penalty. The Governor proposes to continue the county share of the penalty for General Fund revenues of \$55 million in 2004-05.

***County share of Child Support collections.*** The Governor proposes to eliminate the county share of child support collections for an increase in General Fund revenues of \$39.4 million. The county-share of child support collections results from the distribution of collections from families receiving cash assistance and is consistent with the county-share of funding for CalWORKs aid payments.

## **Labor**

***Unemployment Insurance and Workers Compensation.*** The Governor states that he will seek additional changes and reform to the State's Unemployment Insurance and Workers Compensation programs. However no specific proposals have been proposed by the Administration. The Governor states that any budgetary changes needed to implement these reforms will be included in the May Revision.

***Paid Family Leave.*** The Governor proposes \$395 million for the first full year operation of the Paid Family Leave Program.

***Employment Training Panel.*** The Governor proposes \$53 million for the Employment Training Panel.

## **Veterans' Affairs**

***Elimination of the Office of Inspector General.*** The Administration is proposing to eliminate the Office of the Inspector General for Veterans Affairs.